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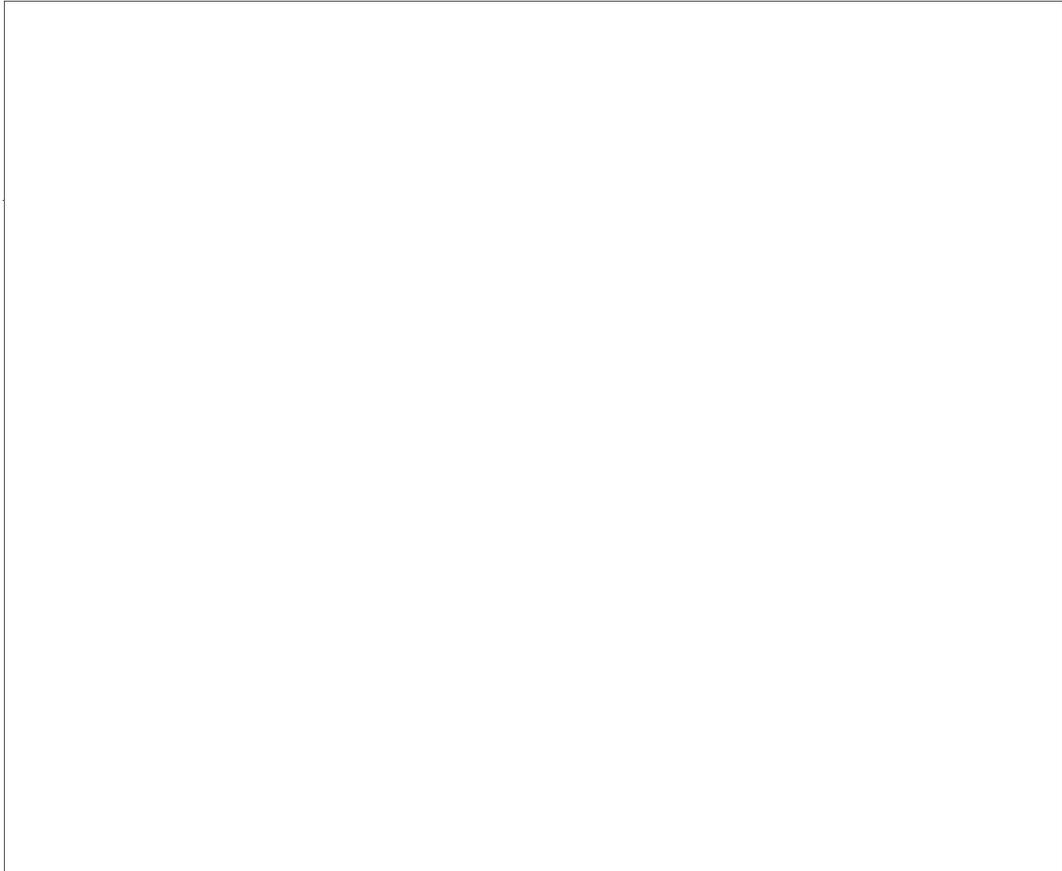
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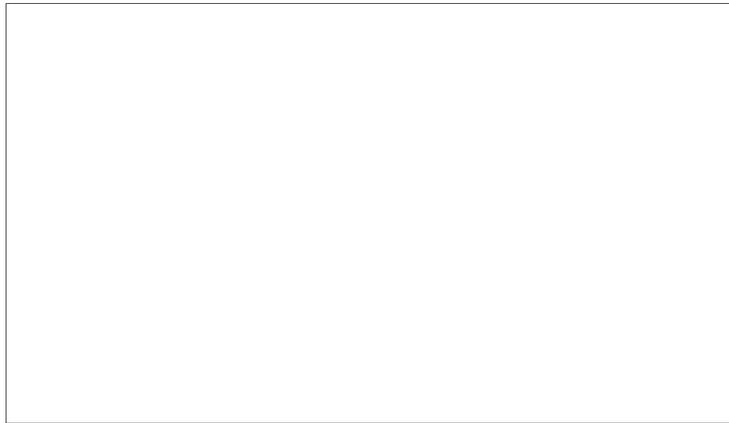
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1. EGYPTIAN MEMORANDUM ON SUEZ CANAL

Comment on:

[redacted] The draft memorandum on the Suez Canal circulated by Egypt on 26 March once again makes clear the Nasr regime's intention to operate the canal

and collect the tolls under its own authority exclusively. The only hint of international participation in the financial arrangements for the canal is an authorization for toll payments to be made to the account of the Egyptian canal authority with the Bank of International Settlements, a non-political institution which acts as clearing agent for central banks in the European Payments Union. Tolls can also be paid directly to the National Bank of Egypt.

[redacted] The memorandum states that Egypt will establish a "Suez Canal capital land development fund" which will receive 25 percent of gross receipts to meet the needs of development and capital expenditures on the canal. However, it appears that this fund would be entirely under Egyptian control. The balance of the memorandum consists essentially of a reaffirmation of Egypt's determination to abide by the Constantinople Convention of 1888 and of its willingness to arbitrate disputes with users and with the stockholders of the nationalized Suez Canal Company.

This memorandum, like its predecessors, is not likely to satisfy the essential demand of Britain, France and other Western European shipping countries that either the financial or operating authority over the canal should be subject to some form of international control. The British government has informed British shipowners they should not use the canal for the time being, and the French government has asked several other SCUA members to make similar requests. However, ships of several nationalities, including Greek and Dutch, reportedly have already paid tolls to the Egyptian canal authority.

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2. MIDDLE EAST 50/50 OIL PROFIT FORMULA MAY BE BREACHED

Comment on:

The Shah of Iran [redacted]

had [redacted]

initiated an oil agreement with the Italian government-owned oil company--Ente

Nazionale Idrocarburi (ENI)--on terms more favorable to Iran than other oil agreements. The terms apparently would result in a division of profit on about a 75/25 basis in Iran's favor. The Shah indicated, however, that he suspects the company's good faith and is not sure that the agreement will be formalized.

Even though this particular deal is not consummated, it may achieve ENI director Mattei's objective of an Italian share in the Middle Eastern oil picture. Earlier this month Mattei threatened representatives of Western oil companies that he would upset "the whole applecart in the Middle East" unless they co-operated with the Italian company. Oil industry sources "emphatically" agree that ENI has this capability. Mattei said, however, that the whole deal could be called off if ENI "were given a small percentage of the Iranian consortium."

The Italian-Iranian deal reportedly involves development of at least part of the promising Qum field south of Tehran. The Iranian government reportedly would put up 50 percent of the capital and the Italians the other half. Profits accruing from Iran's share of the investment would go solely to the government and Iran would also take half of the Italian company's profits. While technically this can be defended as not breaching the 50/50 principle, actually such would be the case.

Should the initialed agreement go through, the 75/25 division would evoke demands for renegotiating oil contracts in other Middle East countries and probably throughout the world. [redacted]

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~~SECRET~~**3. USSR SPREADS ALARMIST RUMORS IN SYRIA**Reference:

A "Soviet bloc source"--probably the Soviet embassy in Damascus--has warned Syria that Israeli reserves are being mobilized and troops being massed on the Jordanian and Syrian borders, [redacted]

The Soviet embassy in Damascus warned [redacted]

that there were British and French concentrations on Cyprus to "meet any developments" when the Suez Canal opens, [redacted]

Moscow attempted a similar rumor campaign in Syria in late November in connection with internal disturbances, playing on Syrian fears of a Turkish and Iraqi attack. The USSR may have felt that such warnings, in addition to hardening the Arab attitude toward the West, might aid Syrian leftists, particularly chief of army intelligence Sarraj, during present factional conflicts by implying that Arabs can count only on the USSR for support. [redacted]

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4. SOVIET NOTE TO NORWAY

Reference:



Premier Bulganin's note of 21 March to Norwegian prime minister Gerhardson is the first formal Soviet communication to any country dealing with the risks of accepting atomic weapons or atomic-equipped units. This has, however, been a strong Communist propaganda theme since January, and a number of informal diplomatic warnings have been given since then, particularly to Asian-African countries.

Bulganin admonished Norway against allowing its territory to be used as a base against the Soviet Union and warned that Norway might have to "pay dearly" for NATO bases. He pointed out the necessity in wartime for retaliation against an aggressor and "also against the bases which are located near our borders."

The most immediate purpose of this letter was probably to deter Norway from accepting new conventional missiles and rockets which could, however, be equipped with atomic warheads. This latest Soviet warning is not likely to deter the Norwegian government from accepting these weapons, but it will complicate the government's effort to "educate" public opinion on their necessity. 

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5. CAMBODIAN GOVERNMENT URGES PROMPT DELIVERY OF CHINESE COMMUNIST AID

[REDACTED] The Cambodian government instructed its permanent economic mission in Peiping on 12 March to make "urgent demarches" to the Chinese Communist regime to eliminate shipping difficulties so that Chinese aid to Cambodia might be implemented "immediately." Any delay, [REDACTED] would risk provoking repercussions on a "political level."

Comment

The continuing absence of any results from the trade and aid agreements negotiated with Peiping nearly a year ago has largely dissipated the initial enthusiasm of Cambodian officials. Growing Communist subversion in Cambodia has augmented this disillusion and has generated serious criticism of Cambodia's national policies.

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